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TAGS: [PREL](#) [PARM](#) [ENRG](#) [PTER](#) [MNUC](#) [IR](#) [CH](#)
SUBJECT: PRC/IRAN: CHINESE OBSERVERS SAY LITTLE ROOM LEFT
FOR FURTHER SANCTIONS PRC CAN SUPPORT

Classified By: Political Minister Counselor Aubrey Carlson.
Reasons 1.4 (b/d).

¶1. (C) SUMMARY: Chinese foreign policy experts say there is little room left for more sanctions against Iran that China can support because current UN Security Council resolutions come close to the PRC red line of jeopardizing China-Iran energy cooperation. Domestically, China's leaders feel increasing pressure from Chinese oil companies and other economic actors to ensure China's energy supply is sufficient to sustain economic development. The leadership sees energy diplomacy as intimately connected to the Chinese Government's ability in an increasingly uncertain economic environment to maintain social stability, which represents a key pillar of regime legitimacy. To maintain the crucial flow of energy, more oil deals similar to the recently concluded Yadavaran/Sinopec contract are likely to emerge, despite the fact that the Yadavaran deal will be difficult to "implement." China continues to believe that direct negotiation with Iran is the only way to solve the nuclear crisis and is seeking ways to establish such a dialogue. END SUMMARY.

¶2. (C) PolOff discussed Iran-China relations and the P5-plus-1 process with Li Guofu, Director of the Center for Middle East Studies at the MFA-affiliated China Institute for International Studies (CIIS) March 5, as well as Chinese Academy for Social Sciences Middle East Studies Director Zhang Xiaodong on March 11. PolOff also raised the topic in a March 21 conversation with Xu Wei, Deputy Director of the MFA West Asian and North African Affairs Department's Iran and Turkey Division.

Nuclear Power OK, Nuclear Bomb Unacceptable

¶3. (C) Both academics reiterated the PRC official position that an Iran with nuclear weapons is unacceptable to China, but that Iran has a right to civilian nuclear power. Zhang said UNSC Resolution 1803 demonstrates China's commitment to this position. He underscored, however, that China is concerned about all potential and actual proliferation of nuclear weapons, including in Pakistan and India as well as Iran. China's proximity to the latter countries amplifies its concerns.

Iranian Energy Crucial China's Social Stability

¶4. (C) Li and Zhang stressed the importance of China's good relations with Iran, particularly in the field of energy cooperation. CIIS' Li argued that China's leaders see a strong relationship between a sufficient energy supply and social stability, which leaders regard as essential for the regime's legitimacy. He said in the current environment of higher inflation and an uncertain international economy,

Chinese leaders give much more weight to uninterrupted economic development than to abstract foreign policy concerns such as Iran's nuclear program. China fears other members of the P5-plus-1 are willing to risk instability in world oil markets, but China is not. Both academics stressed there is almost no room for additional global oil production and the world simply has no choice but to turn to Iran for oil.

Oil Lobby, Economic Voices Influential

15. (C) Li stressed that the MFA still has the primary voice in guiding Chinese policy on Iran, but this primacy may not last. The People's Liberation Army (PLA) plays an increasingly important role and urges a more hard-line stance against Western pressure, stressing China's national interest in good relations with Iran. However, the most important emerging force in Iran policy, Li argued, is an increasing vocal chorus of small business groups, consumers, local and provincial governments and economic advisors. While not an organized lobby, Li said, the influence of this collection of concerns is rapidly increasing.

16. (C) Forming a more formal "lobby," he added, are the state-controlled oil companies, who seek protection for their investments in Iran and space for future development. Referring to the recently signed Sinopec deal, Li said he expects "more Yadavaran" as Chinese oil companies seek to meet domestic demand for energy and respond to pressure from the government to ensure a steady oil supply. Li said that, while there is debate within China about the best way forward on Iran's nuclear program, there is no debate on the need to oppose any action that would threaten China's energy cooperation with Iran. MFA's Xu told PolOff that Sinopec is

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"not a normal company" due to its central role in China's energy security, a "critical" priority for China. (Comment: The state-run Chinese oil majors have significant bureaucratic influence, in part because they possess a breadth and depth of energy-related human resource talent not found in the ministries. A recent reorganization of the government failed to create an energy ministry, leaving behind only a revamped energy commission and an NDRC-directed bureau that may perpetuate the disjointed energy policy structure already in place. In this environment, it is relatively easy for the energy companies to maintain their influence over the ministries.)

Yadavaran Deal Difficult to "Implement"

17. (C) Zhang said that the Chinese oil majors feel increasingly vulnerable to international pressure on Iran, which could give the companies an incentive to lock down new deals quickly and create faits accomplis. He said the Sinopec/Yadavaran development deal has only passed the first test, finalizing the contract. In the current environment, he stressed, Sinopec is very concerned about international pressure, the possibility of sanctions and the difficulties of working with Iranian authorities. These factors will present serious challenges to "implementing" the deal. He declined to offer further information on specific obstacles.

UNSCR 1803 is Punishment and Hurts China, Too

18. (C) UN Ambassador Wang Guangya told the media shortly after the passage of UNSCR 1803 that the measure is not meant to punish Iran or the Iranian people, but to act as a catalyst to restart direct negotiations over the Iranian nuclear issue. Zhang said Wang's comments were aimed at limiting the damage to China's relations with Iran and the new resolution is "certainly a punishment of Iran." Zhang said Western frustration over China's watering down of the latest resolution is matched by Chinese concerns about the

real ramifications of the resolution. While UNSCR 1803 stops short of impeding energy cooperation, Zhang said the financial measures will complicate business for Chinese companies active in Iran and lead to some scaling back of Chinese business activities. Zhang said China was not exempted from the Iranian public outburst after the passage of UNSCR 1803 and that the resolution has made life more difficult for Chinese officials dealing with Iran.

China Caught Off Guard by International Scrutiny?

¶9. (C) Comparing the Iranian nuclear issue to Darfur, Zhang said Chinese policy-makers have been surprised by the extent of international concern over China's role, particularly over the last year. China's leaders have had to revise their thinking on Iran as they became aware that the issue could damage China's reputation during a sensitive year. Zhang said that the Chinese leadership believes the international community does not give China enough credit and misunderstands China's position. Zhang said Chinese policy-makers fear the U.S position focuses solely on the short-term and the international community ignores China's longer-term concerns over its growing energy needs.

Little Room Left for Future Sanctions

¶10. (C) Zhang said there is a growing consensus among policy-makers in Beijing that the three UNSCRs (1737, 1747 and 1803) have done little to resolve the nuclear crisis, but are beginning to cause headaches for Chinese businesses. Each successive UNSCR has moved closer to impacting Chinese core interests, and there is little room that Chinese policy-makers can see for future expansion of formal sanctions, he suggested. Zhang stressed that UNSCR 1803 successfully increased pressure on Iran while not jeopardizing Chinese energy cooperation, but Chinese policy-makers now believe the sanctions have reached the Chinese red line and China will not countenance sanctions that limit Iran's international energy cooperation.

Call for a New Way Forward: Incentives, Trust-Building

¶11. (C) Given China's opposition to further formal sanctions, Zhang said China hopes the United States and China can seek a "new way forward" after the third UNSCR. Chinese policy-makers now believe direct talks between the United States and Iran are the only solution. He added that China

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policy-makers hold out little hope for a diplomatic breakthrough with presidential elections in both countries within the next year. In the meantime, he said Beijing hopes to push for a "strategic rethink," including the idea of an incentive package for Iran, with an acknowledgement of Iran's right to civilian nuclear energy. Zhang said Chinese policy-makers have a growing sense of China's importance, but some leaders still feel inexperienced and lack confidence in dealing with the complexity of the Middle East. Both academics said the Iranians need to build credibility and China wants to help. They acknowledged the difficulty of enhancing Iran's credibility, however, and did not offer specific proposals. Li from CIIS said he advises Government officials that sanctions should be adjusted based on Iranian behavior to create positive incentives for increased transparency.

¶12. (C) As for the official perspective, the MFA's Xu Wei told PolOff that China continues to seek a middle ground that acknowledges the concerns of the international community regarding Iran's nuclear program and creates confidence that Iran's nuclear program is peaceful. He reported that China is actively working with the Iranian authorities to find ways they could be brought back to negotiations on the nuclear

issue, but declined to offer specifics. However, he reiterated the need for recognition of the right to nuclear energy for Iran as a signatory of the Non-Proliferation Treaty as well as a common understanding among the P5-plus-1 members about how to persuade Iran to return to negotiations.

Li: Iranians Sense they have the Upper Hand

¶13. (C) CIIS' Li Guofu said he advises officials in Beijing that Iran will increase its nuclear development in the coming months, because Iranian leaders perceive the West as impotent. Because Iran desires to enhance its bargaining position when direct negotiations eventually resume, it will activate new centrifuges and continue missile development. The Iranians will probably also signal to the next administration that improved relations with Iran are necessary for stability in Iraq and Afghanistan, Li said.

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